THE RURAL REPORT
A UNIQUE GUIDE TO THE ISSUES THAT MATTER TO LANDOWNERS

SPRING/SUMMER 2013

RENEWABLE ENERGY SPECIAL
Making green power work for you

THE FARMLAND MARKET
Values in your area

MANAGING CHANGE
Historic Welsh estate leads the way

TAKING ON THE RETAILERS
Q&A with new watchdog Christine Tacon
Welcome to the Spring/Summer 2013 issue of The Rural Report

Keen readers will notice a new face at the end of this column. After more than 35 years at Knight Frank, Sandy Douglas has retired and it is my great pleasure to write this welcome on behalf of the firm’s Rural Consultancy, Valuations and Farms & Estates’ Agency departments.

Fittingly, on page 10 we visit an estate that Knight Frank and Sandy have been involved with for many years. The innovative approach taken by the Glanusk Estate in Wales is a shining example of how adapting and moving with the times can help to ensure the viability of a rural estate for future generations.

Coping with change is one of the biggest challenges facing farms, estates and country houses. However, change can also bring opportunities, and the current focus on renewable energy is benefiting more and more of our clients.

But every rural property is unique and working out which options are the most appropriate is not always straightforward, especially as the financial support provided by the government to encourage renewable energy is in a constant state of flux.

In our four-page special, starting on page 12, we look at the latest developments in the sector and highlight some of the projects that Knight Frank’s green energy experts have been working on.

When we talk about managing change, the UK’s leading supermarket chains are a shining example of how adapting and moving with the times can help to ensure the viability of a rural estate for future generations.

This success has had a big impact on farming and rural food businesses; on the one hand providing access to a nationwide marketplace for their products, but on the other forcing them to operate in a cutthroat retail environment where margins are constantly under pressure and the supermarket buyer often holds the upper hand.

To make sure that power isn’t abused, a new watchdog with wide-reaching powers has just been appointed. On page 16, The Rural Report talks to Christine Tacon, the first Groceries Code Adjudicator, about the role.

In this issue we also launch Valuation Matters, a new feature focusing on the complex world of property valuations. The need for a valuation is often driven by tax rules and on page 18 Tom Barrow, our Head of Rural Valuations, looks at the new Annual Tax on Enveloped Dwellings.

I hope you enjoy reading The Rural Report and find the articles informative and useful. If Knight Frank can help in any way please do get in touch. Contact details for our rural property teams are at the back of the magazine.

You can also follow the latest rural property issues on our new Rural Bulletin blog at knightfrankblog.com/ruralbulletin

James Del Mar
Head of Rural Consultancy

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Ten to Watch

Knight Frank’s rural property experts highlight a selection of the latest threats and opportunities currently facing the UK’s landowners and farmers

1. Tax Planning Clampdown

Reducing tax avoidance was one of the big themes of George Osborne’s March Budget statement. The UK’s Chancellor warned that he will be looking at long-established tax planning measures used legitimately by many rural estates, as well as more controversial avoidance schemes. These include tightening the rules concerning the mitigation of Inheritance Tax (IHT) liabilities by using debt secured against a non-exempt asset for IHT purposes, such as a residential dwelling, to purchase or develop exempt assets, such as those that qualify for Agricultural Property Relief or Business Property Relief. Some common tax and National Insurance structures used by partnerships are also due to be examined. Estate planning and value conservation have just become much less straightforward.

James Del Mar
Head of Rural Consultancy

2. Reduced Farm Support Payments

Given the financial crisis that continues to engulf large parts of the European Union, it was inevitable (despite realistic attempts by some member states to maintain the status quo) that the amount of money made available for the Common Agricultural Policy (CAP) would have to fall as part of the ongoing reform of the controversial scheme. If an agreement on reform is reached this year as planned, this will affect subsidy payments from 2014. However, because of the way subsidies are funded, 2013 payments to the UK’s farmers are also set to drop significantly - by around 8% - a year earlier than some were budgeting for. But this doesn’t take into account any exchange rate fluctuations, one of the largest influences on UK farm incomes.

Percy Lawson
Estate and Farm Management

3. Domestic Heat Subsidy Delay

Rural homeowners hoping to sign up for the Renewable Heat Incentive (RHI) this summer were disappointed recently when the government announced it was delaying the extension of the scheme to domestic properties until 2014. Currently, the RHI, which pays property owners for every unit of eligible heat energy produced by a range of renewable technologies, such as biomass and ground-source heat, is only available for commercial premises. However, projects supplying multiple domestic properties can still qualify so it could be worth-checking if you might be eligible. In the meantime, small capital grants are still available to help fund the installation of domestic schemes. Please see page 12 for more on renewable energy.

Edward Holloway
Renewable Energy and Rural Consultant

4. Fracking Boost

An increase in the amount of fracking that takes place in the UK looks likely after George Osborne announced in the Budget that he would be introducing a generous new regime of tax allowances to encourage development of the controversial gas-extraction technology. A recent report also concluded that fracking does not cause a significant number of earthquakes as its opponents claim. In the UK, unlike the US, hydrocarbons belong to the state not the landowner so fracking is unlikely to create a new breed of rural oil-barons. Despite this, those sitting on potential deposits will want to take advice to ensure they maximise the benefits available.

Hamish Baxter
Estate Management

5. Farm Buildings Planning Boost

The unwillingness of local planning departments to allow the conversion of redundant farm buildings into residential dwellings has meant, where allowed, landowners and farmers often choosing the next best option - some form of commercial premises. However, an oversupply of rural commercial space, particularly offices, and the economic downturn has rendered many of these schemes unviable. A recent extension to permitted development rights that means planning consent will no longer be needed for change of use from commercial to residential (provided the façade of a building remains the same) could therefore be very useful. Moving from agricultural to commercial use will also be easier. Local planning authorities can, however, apply for an exemption from the new rules, but this has to be approved by the government.

Edward Dixon
Rural Consultant

6. Agricultural Wages Board Abolition

Farmers and rural property owners relying on the minimum rates set by the Agricultural Wages Board (AWB) to help calculate staff salaries will have to look elsewhere following the scrapping of the board. MPs put the final nail in the AWB’s coffin in April when they voted in favour of legislation abolishing it. Although Unite, the union representing farmworkers, claims the board’s abolition will cost the rural economy hundreds of millions of pounds and says it is looking at the possibility of taking the issue to the European Court of Human Rights, the AWB is now due to be wrapped up this October.

Angus Harley
Head of Country House Consultancy

7. Water Abstraction Reform

Although much of the past year has been blighted by excessive rainfall, it is worth remembering that a large part of England was officially hit by drought at the beginning of 2012. Expectations that we will continue to experience further water shortages are part of the reason why the current water abstraction regime is set to be reformed. A consultation is due to open later this year with the possible outcome that abstraction licences could become tradable. Some people might find it makes more sense to sell their licences than grow the crop they’ve been irrigating, particularly in areas where there is huge public demand for water.

Alastair Paul
Rural Consultant, East Anglia

8. Extensions Extension

The government’s controversial proposal to allow homeowners to add single-storey extensions of up to eight metres to their properties without the need to apply for planning permission has just been approved by parliament, albeit narrowly. However, following opposition from both the House of Lords and MP’s, the original proposals, which form part of the Growth and Infrastructure Bill, have been somewhat watered down. Neighbours will now have the right to object to proposed extensions, details of which will have to be supplied to councils. The new exemption does not apply to Conservation Areas or Areas of Outstanding Natural Beauty.

James Carter-Brown
Head of Building Consultancy

9. Farmland Price Hike

Farmland values are rising again this year after a slight dip in the second half of 2012. The average price of English farmland is now just over £6,500/acre – a record high – but large blocks of good commercial arable land are making more than £10,000/acre. The combination of limited land availability and strong demand from investors and farmers is helping to underpin values. Now could be an opportune time to sell. For those wishing to keep farming, a number of investors are prepared to offer sale and leaseback terms. See Page 6 for more details and a comparison of the performance of farmland against other assets.

Tom Raynham
Farms & Estate Sales

10. Scottish Independence Vote

It has now been confirmed that all registered voters in Scotland over the age of 16 will have the opportunity to take part in a referendum on 18 September 2014 as to whether the country should become independent from the rest of the UK. They will be asked to respond yes or no to the question: Should Scotland be an independent country? In the event of a yes vote, many issues, particularly currency, will need to be clarified. On balance, however, we still firmly believe landownership in Scotland will remain a very attractive proposition, especially given the enthusiasm here for renewable energy, agriculture, forestry and sport.

Ran Morgan
Head of Farms & Estates, Scotland

To find out more about the topics highlighted on these pages or any other rural property ownership issues, please do get in touch. The contact details for Knight Frank’s rural property teams are at the back of the report. For more regular updates you can now follow Knight Frank’s new rural blog at knightfrankblog.com/ruralbulletin
UK farmland values have already risen in 2013 and further increases are expected over the next 12 months.

According to the Knight Frank Farmland Index, the average value of farmland in England rose by 3.5% in the first quarter of 2013 to £6,307/acre. This takes growth over the past 12 months to 4% and the past decade to 207%.

According to the Knight Frank Farmland index, source: Knight Frank residential research England Farmland 10-year capital growth uK farmland values have already risen in 2013 and further increases are expected over the next 12 months.

Land offers something more tangible, yet still has the potential to provide good capital appreciation. For private investors it also offers significant tax and amenity advantages.

This combination of benefits has seen one of the UK’s best known businessmen acquire a significant portfolio of arable land in East Anglia, pushing farmland back into the media spotlight. Good blocks of commercial land can now command upwards of £10,000/acre in the region, says Tom (see map opposite).

Despite the continuing weather problems, investor interest maintains a little of its value, demand is firm for more land could come up for sale over the next few seasons as some farmers decide they’ve had enough of the weather – for many, 2013 could be the third successive difficult harvest – and look to take advantage of current strong land prices.

However, UK agriculture still has a very strong balance sheet overall with liabilities well under 10% of the sector’s capital value. This means there is unlikely to be a huge increase in the number of debt-driven disposals. If it appears an over-supply is causing values to weaken, potential vendors may well decide to sit tight until the market firms again.

It now also looks like the ongoing reform of the Common Agricultural Policy (CAP) is unlikely to lead to a major shake-up of the EU’s farm subsidy system as some had feared. Direct support payments to farmers, which make up a significant contribution to profitability for many units, look set to remain until at least 2020. A threat to cap the subsidy payments of the largest farmers also seems to be receding.

The ongoing weakness of sterling against the euro is also beneficial for UK farmers because it boosts the value of subsidy.
Scottish farmland also offers other opportunities for investors, not to mention lifestyle purchasers, as well as agricultural income, points out Ran Morgan, Head of Estate Sales.

“We are currently selling a large highlands estate that boasts some amazing stalking, fishing and shooting, but it also has a huge potential income from hydroelectricity. This has really caught the imagination of potential purchasers who like the idea of owning a fabulous sporting estate that can actually pay for itself.”

Looking forward, the Knight Frank Scottish Farmland Index predicts further growth in values of 3-4% over the next 12 months. “It doesn’t seem as if there will be any more land on the market in 2013 than last year, so I expect values to maintain their steady upwards trajectory,” says James.

RARE INVESTMENT OPPORTUNITY

It is not just UK farmland that is gaining in value on the back of increased interest from investors; woodland is also experiencing a surge in popularity as an asset class.

Firm timber prices and the rising demand for woodchip or pellets to use in biomass boilers are helping to boost returns. The tax benefits, including no income tax on timber sales, are also particularly appealing to family trusts or private individuals making long-term investment plans.

“Woodland is also a fantastic asset to own. It is a rare investment opportunity that can actually pay for itself,” says Tom Raynham of Knight Frank’s Farms & Estates team. “It is one of the largest blocks of woodland to come to the market in the south of England in the past 20 years.”

The FINGLE WOODLANDS

The land is guided at £6,500/acre to £7,500/acre. A large mansion house, a farmhouse and a number of cottages are available separately. For more details please contact: James Denne on 01578 722 814.

THE MYNDE PARK ESTATE

The Mynde Park Estate is for sale as a whole or in 10 lots with a guide price of excess £15m. For more details please contact: Will Matthews on 020 7861 1440.

THE BEST OF THE REST

A selection of other properties for sale or recently sold.

Great Surries, West Sussex
A wonderfully secluded estate within 40 miles of Central London. Available in four lots ranging from 16 acres to almost 440 acres, the majority of the woodland is planted to mixed-age commercial conifers, but there are also areas of deciduous trees and frontage to the River Teign.

The Franchise Manor Estate, East Sussex
Refurbished country house with woodlands, lake and arable land. Available.

The Freelands Estate, Oxfordshire
Stunning Cotswold estate with pheasant shoot. Available.

Land at Butlers Cross, Buckinghamshire

Eckington Fields, Worcestershire
Period farmhouse, traditional farm buildings with residential consent, high quality arable and pastureland. Available.

Hitcham House, Suffolk

THE LAND IN EAST LOTHIAN

The land includes a seven-acre lake, a mile-long carriage drive, a high pheasant and partridge shoot, a secondary residence and seven cottages.

940-acre arable and sporting opportunity

As the results of the Knight Frank Scottish Farmland Index highlight (see page 8), investor demand for large blocks of good commercial arable in the country is very high. However, there is currently little on the market to satisfy the interest. Because of this, we anticipate good demand for this 940-acre parcel of land near Dunbar, east of Edinburgh, which includes 660 acres of productive arable soil and a superb low-ground shoot with views over the coast. Just over 1,500 acres adjoining the land were recently sold to an investor.

The land is guided at £6,500/acre to £7,500/acre. A large mansion house, a farmhouse and a number of cottages are available separately. For more details please contact: James Denne on 01578 722 814.
The Rural Report visits one of Wales’ most beautiful estates to find out how it is preparing for the future

Words: Andrew Shirley  Image: Richard Stanton

Planning for the next generation is a key, but too often neglected, part of estate management. Even when the need for action is acknowledged, implementing a succession strategy is frequently delayed because of the complex family issues that commonly arise.

However, the Glanusk Estate in Powys, Wales, has taken the bull firmly by the horns and, with the help of Knight Frank, put in place a plan that should safeguard the future of the estate and ensure a smooth succession to the next generation of the Legge-Bourke family.

The family has lived at Glanusk since 1826 when it was purchased by Sir Joseph Bailey, an industrialist who had amassed a fortune in the iron industry. Since 2008, shortly before his father passed away, the management of the estate has been overseen by Harry Legge-Bourke in conjunction with his mother, Shân, the Honourable Mrs Legge-Bourke, who is Lord Lieutenant of Powys.

“The estate is in my blood, so it was always a case of when, not if, I would come home,” says Mr Legge-Bourke, a former officer in the Welsh Guards.

Although maximising Glanusk’s existing income streams and introducing new ones was the main challenge when he returned, ensuring a succession plan was in place to pass the estate to his two children Lochy and Serena was also a priority.

“The estate had to pay a huge amount of death duties when my grandmother died, so I was really keen that didn’t happen again in the future,” says Mr Legge-Bourke.

To mitigate Inheritance Tax (IHT) liabilities, a large proportion of the estate’s property portfolio has been put into a Family Limited Partnership for the benefit of Mr Legge-Bourke’s children. “People have said that’s a very altruistic thing to do, but it also makes a lot of sense,” he says.

In addition, and after a lot of soul searching, the estate’s main house and its historic parkland and buildings have been entered into HMRC’s Conditional Exemption Tax Incentive scheme. “It wasn’t an easy decision. Until last year the estate was completely private, now there is a permissive path running through the middle of it and we have to adhere to an agreed management plan,” says Mr Legge-Bourke.

Succession planning, by its very nature, can be an emotive issue, especially when a number of family members and generations are involved. “It is a very exciting time for the estate,” he says. “Sandy has retired – although he remains a trustee of the estate – and Hamish Baxter, part of Knight Frank’s new generation of rural consultants, has taken over the reins.”

Hamish was instrumental in the recent succession planning project and now assists the Legge-Bourkes on the next stage of Glanusk’s journey. “He won’t, however, be rushing into any new schemes without plenty of due diligence. “I’ve learnt an awful lot since coming back to help run Glanusk.”

For example, installing an anaerobic digester to generate renewable electricity initially looked like an obvious solution given the amount of grass on the estate. But after investigating the options with Knight Frank it turned out the estate would need to plant 400 acres of maize and therefore change its entire farming system to make the scheme viable.

“It might make sense in the future, but we’ve put it on hold for now,” says Mr Legge-Bourke. He is, however, looking to drive the estate’s agricultural portfolio forward and is hoping the letting of the 650-acre home farm under a long-term Farm Business Tenancy will attract an innovative young farmer full of new ideas to Glanusk.

“It’s a fantastic opportunity,” agrees Hamish. “There are always new things happening here and that’s what makes it such a wonderful estate to be involved with. I am sure it will be enjoyed by the Legge-Bourkes for many generations to come.”

Mr Legge-Bourke says he is still looking for a “game-changing” opportunity to really cement the ability of the estate to provide for multiple generations of his family.

Much of the focus will be on the 20,000 acres of upland common grazing land that currently make a negligible financial contribution to the estate. “That needs to change,” says Mr Legge-Bourke. “Every asset has to be made to sweat and really pay for itself.”

The estate is already creating grouse-friendly habitat on part of the land and renewable energy is another potential source of income.

For more information on how Knight Frank can help estates with their succession planning contact hamish.baxter@knightfrank.com or 01488 688 500

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The Glanusk Estate

400 acres parkland
800 acres forestry
3,500 acres farms
20,000 acres common land
5 miles of River Usk
40-day shoot let to private operator
16-day in-hand shoot
28 let properties
www.greenman.net

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It would be fair to say that the renewable energy sector enjoys more than its fair share of mixed messages. Grand announcements from government ministers about the importance of renewables often seem to run parallel with ill-timed cuts to support payments and last-minute changes to scheme rules. The announcement earlier this year that the extension of the Renewable Heat Incentive (RHI) to domestic properties was being delayed yet again was a classic example. Homeowners keen to install renewable heat projects such as biomass boilers were left frustrated that the scheme won’t now be available to them until 2014. The much publicised reduction in the Feed-in Tariff (FIT) payments for those planning to produce renewable electricity also hit the confidence of those planning to invest in a project for their farm, home or estate.

But, and this is an incredibly big but, there are still very significant opportunities for rural property owners to benefit from renewable energy and I don’t believe they will be going away. It would be hard to think of a property that couldn’t benefit in some shape or form. Despite the reduction in financial support, the annual returns available from renewable energy projects can still outperform many other investments, as our case studies later in this feature clearly show. Investment payback can be under five years and it is worth bearing in mind that FIT and RHI payments are index linked, guaranteed for up to 25 years and any future rate reductions do not apply to those already in the scheme. What is important is to ensure you pick the right partners. The UK’s renewable industry is still embryonic compared with much of continental Europe and there have been a number of high-profile collapses within the sector.

Choosing the right renewable technology for your property is clearly vital as there are so many options. Often what somebody thinks might be best for them isn’t the right option. An array of roof-mounted solar panels may make financial sense in the short-term, but could affect the future value of a property. To highlight the various opportunities available for our clients, we can organise a “beauty-parade” of carefully selected equipment suppliers and installers.

“It would be hard to think of a property that couldn’t benefit in some shape or form.”

The renewables industry is global so you also need to know what is going on around the world, such as the recent bankruptcy of the world’s largest supplier of solar panels in China, and what impact that could have in the UK and on your clients’ projects. Timing can be crucial. FIT payments, for example, are regularly reviewed so it makes sense to ensure any schemes are up and running before the deadline for another round of potential cuts. However, subsidy payments are not the only reason to consider investing in renewable electricity. You don’t have to be living in a stately home for your fuel bills to easily run into thousands if not tens of thousands of pounds each year. With gas, oil and electricity set to become even more expensive, it won’t be long before some renewable energy projects make sense without any external financial support. A number of the more pessimistic energy analysts are also claiming that the UK’s aging power stations will not be able to cope in the near future, so having your own power on tap could be handy if the lights do go out. And you will still receive FITs and the RHI even if you use all the energy produced yourself. Renewables can also play an important role in longer-term estate planning. One of my clients looking to the future said the following to me the other day: “ Ideally, I would like my estate to be self-sufficient in energy and water as it would be nice to pass something on to my children that doesn’t require a huge income to maintain.” This makes perfect sense. Rural properties can be very expensive to maintain and while this may not be a problem when people are working and have large incomes, running costs could become more of an issue during their retirement or for the next generation before it reaches its full earning potential. Country houses and estates should be things to enjoy, not millstones around people’s necks.

As renewable energy becomes more and more commonplace and the cost of conventional energy rises, not to mention the ever-growing pressure on government finances, it is inevitable that the financial support available will dwindle. Those buying into green energy now will not only be helping to future proof their properties, but they’ll be getting paid to do it.

For more information on the renewable opportunities for your estate contact: christopher.smith@knightfrank.com or 01179 452 630
Oliver Routledge

POWERING UP

Knight Frank’s experts highlight a selection of renewable opportunities to suit all rural property types and sizes

Oliver Routledge

HYDROELECTRICITY

Think hydroelectricity and images of large reservoirs and dams spring to mind. It is, however, possible to generate significant amounts of income from relatively unobtrusive schemes that have little impact on the environment. As well as advising clients on the benefits of hydro, I have just installed a 190kw project on my family’s 1.400-acre Scottish sheep and fish farming unit that will turn over in excess of £100,000 from the Feed-in Tariff (FIT) each year for the next two decades. This will rise in line with inflation.

In addition to the FITs, each unit of power exported to the National Grid receives the Export Tariff from the purchaser of that power. For smaller schemes this is usually 4.64p/kw, but I have negotiated an initial price of 5.46p/kw with a green energy broker worth around £45,000 year. By using some of the power generated, the fish farm will also be able to save around £10,000 on its electricity bills. This saving will increase as conventional electricity costs rise.

The £750,000 cost of the scheme, which includes the generating equipment and installation of 1,800 metres of pipes from a burn 170 metres above the steading, should be paid off within five years. While FIT payments for other technologies have been cut, those for hydropower power schemes of this scale have actually increased. After considerable lobbying by the hydroelectric industry, the government has clearly recognised that these projects are very capital intensive.

This means the income from such schemes can go straight to the bottom line of an agricultural business very quickly. With fish food now in excess of £1,000/t creating a stable diversified income stream to support a business that is so beholden to global commodity prices is very exciting and a great step forward for us.

The amount of untapped hydropower in Scotland is estimated to be the equivalent of 20,000 similar schemes. Even in lowland areas, there is the potential to install many more small hydro projects. These do not require large differences in height to create a head of water, but rely instead on a higher volume of slower moving water to power the likes of an Archimedes screw. Knight Frank has also been involved with pump-storage schemes, where water is pumped into a reservoir at night using cheap electricity and then released during the day when demand and electricity prices are much higher.

Michael Ireland

COMMUNITY WIND

In the Highlands and Islands of Scotland we are helping remote rural communities to really benefit from wind power. Under the Scottish Government’s Renewable Energy Investment Fund (REF), a loan fund administered by the Scottish Investment Bank, which is part of Scottish Enterprise, communities can apply for a loan that will help them develop renewable energy projects to the point where a commercial lender will provide the bulk of the funding.

I am working on various REF applications on behalf of Scottish Enterprise, in a number of locations, to provide valuations of the projects as reassurance to Scottish Enterprise that each community wind project is financially viable.

James Carter-Brown

DOMESTIC HEAT

Renewable heating should always be a consideration for anybody building a new form or converting old farm buildings. All accredited installations will be eligible to join the RHI once it is extended to domestic properties. Because they produce relatively low, but constant, levels of heat, technologies such as ground or air-source heat work best in well-insulated buildings, where under-floor heating can be installed. Biomass boilers are more suited to existing houses, especially those on estates with areas of woodland.

We have helped a number of clients, including The Crown Estate, install ground-source heat into rural new build projects and have successfully minimised heating costs by installing an air-source system into a barn conversion.

Percy Lawson

ON-FARM AD

An anaerobic digestion plant is rather like a steel version of a cow with feed shoehorned into one end and gas coming out the other. The gas is then used to power a generator that produces electricity. The heat produced can be used to provide a hot water system. We are helping a number of my large farming clients to set up AD systems. They work on the principle that those that use a lot of heat such as chicken or dairy units. Some clients prefer to let their land to an investor who will provide the capital needed in return for the FIT payments. I have noticed an increase in the number of specialist funds looking for sites. This is partly because AD projects are covered by the tax efficient Enterprise Investment Scheme.

Michael Ireland

RENEWABLE ENERGY: RURAL OPPORTUNITIES

Oliver Routledge on the intake structure for Air Source Heat Pump. Image: Neville Stanikk

James Carter-Brown, Christopher Smith and Edward Holloway at a Large Scale Solar PV scheme. Image: Neville Stanikk

Christopher Smith

LARGE SCALE SOLAR

While small and medium-sized solar PV schemes are now routinely installed by our rural clients, we are also advising some on much larger projects that could be game-changing for their estate’s financial position. One I am currently working on will involve 250 acres of panels.

Because of their scale, planning and funding are the main issues. Large areas of relatively unproductive agricultural land, such as an old airfield or former mineral workings, will be most suitable. Costs will run into tens of millions of pounds, so to remove the capital outlay burden from our clients we work with specialist renewable energy funds that are prepared to pay substantial rents for the right sites.

James Carter-Brown

Michael Ireland

Christopher Smith

Percy Lawson

Rural Report

Oliver Routledge

Financial Support for Renewables

Feed-In Tariffs (FITs)

FITs are available for every unit of electricity produced by eligible technologies such as wind, solar, photovoltaic panels and anaerobic digestion plants (ADs) up to 5MW even if it is used by the generator’s own home or business. Payments vary depending on the size and type of installation and are index-linked and payable for 20 to 25 years. Units of electricity supplied to the National Grid will also receive an additional “export” tariff.

Renewables Obligation Certificates (ROCs)

These are issued by Ofgem to larger-scale accredited renewable generating stations for each unit of eligible renewable electricity they generate. They are then sold to electricity suppliers to show they have fulfilled their obligation to source a percentage of the energy they sell from renewable sources. Unlike FITs, ROC rates are set each year, but they are payable for 20 years. Some technologies qualify for multiple ROCs.

The Renewable Heat Incentive (RHI)

The RHI pays a set rate for every eligible unit of heat generated by permitted technologies. These include biomass boilers, ground and air-source heat pumps and solar hot water systems installed by an accredited business from 15 July 2016. Currently only available for commercial properties or where a project supplies multiple residences. The delayed domestic RHI scheme is due to be launched in spring 2014.

The Renewable Heat Premium Payment (RHPP)

This is a capital grant available to homeowners to cover part of the cost of installing eligible renewable heat technologies, such as a biomass boiler, until the RHI is extended to domestic properties. Payments range from £600 to £2,300 depending on the technology.

Enhanced Capital Allowance (ECA)

This provides a 100% first year allowance on investment in approved energy-saving technologies. For a business paying corporation tax at 28%, every £10,000 spent on eligible energy-efficient equipment would reduce its tax bill in the year of purchase by £2,800. The generally available capital allowance for spending on plant and machinery would only cut the bill by £600.

For the latest FIT, RHI and ROC rates: edward.holloway@knightfrank.com

Knight Frank

KnightsFrank.co.uk/rural
Christine Tacon, the recently appointed Groceries Code Adjudicator and arguably the most influential woman in UK agriculture, talks to Rural Report editor Andrew Shirley about the new role and other big farming issues.

Describe the adjudicator’s role in a few sentences?

CHRISTINE TACON

I will be enforcing the Groceries Supply Code of Practice, which was introduced by the Office of Fair Trading in February 2010 and protects the direct suppliers of the 10 supermarkets that turn over more than £1bn. The Competition Commission decided there was evidence that consumers were being disadvantaged by the undue pressure that the retailers were putting on their suppliers, but people were too terrified to say what was going on because they were scared of losing business. Hence the need for an adjudicator to see that the Code was followed.

What examples of unfair practice have you come across?

RR

Contracts have been agreed, but then suppliers are asked to do deeper promotions than agreed or to use a specific haulier orpacker who is more expensive than their existing one. I think the most shocking thing that has been going on is if somebody has a good year, or the retailer has had a bad year, they are asked to put extra money on the table to keep the business. Contract negotiations will always be very tough, but buyers shouldn’t be able to come back and keep asking for more. My role is not to get involved in anything to do with price negotiations, just unfair practices once an agreement has been reached.

RR

What action can you take against those who breach the code?

LT

There are two ways I can work. If a supplier feels they’ve been badly treated and haven’t got a satisfactory resolution from the retailer’s own code compliance officer, they can come to me and ask me to arbitrate. The retailer has to pay the costs and I can award compensation. I can also launch investigations and, if things have gone wrong, apply various sanctions against the retailer.

RR

What sanctions can you apply?

LT

If I find that the retailer has breached the code, I can either issue a recommendation to clarify the code, such that any future breach is clearly seen as a breach or I can make it public. Additionally, for serious breaches, I can fine the retailers.

How large could the fines be?

LT

I have got to issue guidance which then goes out to consultation before this is decided, and then my recommendation has to be agreed by parliament. However, the purpose of the fines is to make sure no retailer could possibly benefit financially from breaking the code. So if they are asking for £5m from a supplier it has clearly got to be significantly more than that.

RR

Will your role make a difference?

LT

In terms of the code, as long as people come and tell me what is going on, then yes, I think it will. I don’t think retailers, certainly not at board level, will be endorsing people breaking the law. But when times are hard there will always be the temptation to see if there are new ways to squeeze more out of suppliers. Buyers are under huge pressure to hit their targets.

What was the horsemeat scandal inevitable, given the drive to minimise costs in the supply chain?

LT

The pressures are immense and there will always be a risk of turning to fraud. But I think the retailers will all learn from what has happened and try and tighten up their supply chains.

Could your role and this tightening of supply chains benefit the UK’s farmers?

LT

I am excited by the potential of taking some of the fear out of relationships and regaining some trust. There are some huge opportunities out there for people trying to find every which way of taking another bite out of the supply chain and to look instead at doing things more cleverly. A lot of the retailers’ reaction to the horsemeat scandal has been how do I make my chain shorter? And the shortest chain you are going to get is buying from the UK. But what really would be counterproductive is to have more and more audits and quality control on the people who were never breaking the law in the first place.

Many farms still rely on EU subsidies. Will that change in the foreseeable in future?

LT

We are price takers in every single direction. For example, we all know that the minute the price of wheat goes up the price of fertiliser follows. And if you are a tenant or contract farmer, as soon as there is any profit in the job, the person who owns the land will want to take a share of it. I think farming will always teeter on the edge of being slightly profitable, but it will never make loads of money in year out. Subsidies are built into the price of land for most contract and tenant farmers, so if they reduce dramatically, farm-gate prices will have to increase to restore the balance.

Is it right that farming is subsidised when other industries are not?

LT

I don’t think it helps to call it a subsidy when farmers are providing a public good that in many cases they do not have to provide. They manage 70% to 80% of the UK by landmass and therefore much of what happens in the environment is decided by them. So long as people want to tell farmers what to do in the way they farm the environment, then they’ve got to be paid for doing it.

RR

What would you advise farmers to do to make their businesses more profitable?

LT

Do a budget, understand all their costs, benchmark their business and then work out how they could reduce costs by working with other farmers.

Could more be done to encourage new entrants into farming?

LT

I think some of the engineering excitement, such as satellite technology, will attract the techno-buffs that the industry needs. We need to make sure they are aware that farming isn’t just how advertisers like to depict it, which seems to be people speaking in a broad Cornish accent with string holding up their trousers. Additionally, I think far too much of the promotion of farming is about livestock as opposed to the short life of horticulture and arable farming. I don’t think we need a lot of people who want a 100-acre farm to run. We need new entrants who want to come into super intensive agriculture where people work for large organisations and go up the hierarchy.

Would you say farming is still too introspective an industry?

LT

I think some of the engineering is new entrants into farming? (a 3-day a week role), she is a non- executive director of Anglia Farmers, a £26bn farmer-controlled purchasing group, a member of DEFRA’s Strategic Regulatory Scrutiny Panel, which is tasked with making future regulation, such as reform of water abstraction regulations, effective; Chair of UK Farming PLC, a farmland investment fund, and Chair of the BBC’s Rural Affairs Advisory Committee.

Prior to joining the Co-op, Christine worked in the fast-moving consumer goods (Marks, Vodafone and Anchor Foods) and engineering (Coats Viyella and Redland Brick) sectors. She has an MBA from Cranfield University and studied agriculture at Cambridge University.

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Christine Tacon Biography

As managing director of Co-operative Farms (2000 to 2012), Christine Tacon was the UK’s largest farmer responsible for around 50,000 acres. She has served on numerous industry panels, taskforces and company boards and was awarded a CBE for services to agriculture in 2004. She has recently been appointed as the first Groceries Code Adjudicator (a 3-day a week role), she is a non- executive director of Anglia Farmers, a £26bn farmer-controlled purchasing group, a member of DEFRA’s Strategic Regulatory Scrutiny Panel, which is tasked with making future regulation, such as reform of water abstraction regulations, effective; Chair of UK Farming PLC, a farmland investment fund, and Chair of the BBC’s Rural Affairs Advisory Committee.

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204x39 to 623x792
In the first instalment of our new column, Valuation Matters, Tom Barrow looks at the implications of the new Annual Tax on Enveloped Dwellings (ATED)

Originally termed the Annual Residential Property Tax when it was proposed in the 2012 Budget, the introduction of ATED was confirmed by Chancellor George Osborne in his fourth Budget earlier this year.

In a nutshell, the new tax is part of HMRC’s attempts to crack down on the use of companies to avoid paying taxes on residential properties. It will be levied on UK dwellings worth over £2m (at 1 April 2012 or from acquisition if later) that are owned by companies (and other corporate structures). Collective investment vehicles and partnerships that include one or more of the previous categories. In certain circumstances relief can be claimed.

Affected owners wishing to avoid ATED had until 1 April 2013 to ‘de-envelope’ their properties. Given that there are many reasons, other than minimising tax bills, to hold residential property within a company and de-enveloping comes with its own costs, many of our affected clients, unsurprisingly, chose not to do this.

Those covered by ATED must submit their completed first returns to HMRC by 1 October. In subsequent years, the return and payment deadline will be 30 April.

ATED is similar to Stamp Duty Land Tax (SDLT), in that properties are split into price bands, but unlike SDLT a flat rate is charged rather than a percentage of the value (see below). At each threshold the tax rises at two-fold.

### ATED bands

<table>
<thead>
<tr>
<th>Property Value</th>
<th>Tax 2013-2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1m - £5m</td>
<td>£35,000</td>
</tr>
<tr>
<td>£5m - £10m</td>
<td>£35,000</td>
</tr>
<tr>
<td>£10m - £20m</td>
<td>£70,000</td>
</tr>
<tr>
<td>£20m</td>
<td>£140,000</td>
</tr>
</tbody>
</table>

The annual tax is “self-assessed” meaning property owners provide their own valuations. They can either do these themselves or use a professional valuer. Alternatively any new tax in these areas is now clearly defined and there will no doubt be many battles between HMRC and owners, but the following are some key areas to consider for those who may be affected:

- **Check whether you qualify for a relief:** Various categories are available, including properties let on a commercial basis to a third party. Relief can be claimed if the properties are occupied by a farmer who farms the associated land on a full-time basis. Historic buildings open to the public on a commercial basis for at least 28 days a year can also qualify. Anybody wishing to apply for these reliefs may need to ensure they can provide HMRC with written evidence (which plans to issue more guidance by July) with the appropriate evidence to back up their claim. Even if you do qualify, relief is not automatic and an ATED return must still be submitted each year.

Work out what will be covered by ATED: The definition of a dwelling under ATED includes gardens and grounds and any buildings or secondary dwellings. Non-residential parts of a property and those that qualify for a relief - such as commercially let accommodation – are excluded, but ensuring you have documentation – such as a Single Payment claim on parkland or rental agreements – to prove this is the case makes sense.

Work out the value of qualifying assets on the appropriate date: Because ATED bands are quite wide, it will be clear where most properties sit and subsequently what tax has to be paid. Some, however, will be on the cusp of a boundary. HMRC has already said it will be paying close attention to properties within 10% of a threshold and could apply penalties and interest if it successfully challenges a valuation. It is here that an expert valuation, submitted at least 20 days before an ATED return is due and backed up by reliable comparable evidence, will really come into its own. Getting HMRC to approve this “pre-banding check” is crucial because it will form the basis for the first five ATED returns until 1 April 2017. For example, if HMRC accepts a property within 10% of a threshold then an owner can provide HMRC (which plans to issue more guidance by July) with the appropriate evidence to back up their claim. Even if you do qualify, relief is not automatic and an ATED return must still be submitted each year.

For more information on ATED or other valuation issues please contact our team. For more information on ATED or other valuation issues please contact Tom Barrow on 020 7861 1438.
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